

# Stepping on the gas

New Rockies hub will increase energy distribution for the nation

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The Salt Lake Tribune

Article Last Updated: 09/15/2007 01:20:32 PM MDT

Questar Corp. is planning next year to build a natural gas pipeline hub in northwestern Colorado - a project that will help Utah and its neighboring states play an increasingly important role as natural gas suppliers to the nation.

The Utah company's hub project will link six pipelines serving the region and is expected to benefit consumers east and west of the Rocky Mountain region by helping bring increasing supplies of natural gas to their doorsteps.

It may be a different story, though, for Utah consumers, who could end up paying a bit more to heat and cool their homes once the gas starts flowing through the new pipeline connections at the hub.

"It is definitely going to have an impact on prices. The question is how much," said Alan Isaacson, a researcher at the University of Utah's Bureau of Economic and Business Research who has studied the natural gas industry in the Rocky Mountain States.

For decades, Utah and its neighboring states were considered one of the country's natural gas backwaters. Rich in the fossil fuel, the region nevertheless lacked the pipeline capacity to get much of its natural gas to the growing markets in the Midwest and along the West Coast, where it was in high demand.

Utah consumers benefited.

With limits to where it could flow, a natural gas bubble developed in the region, with the excess supply holding prices down. Over the years, Utah consumers paid anywhere from 10 percent to 35 percent less for natural gas than their counterparts in other areas of the nation.

Questar's proposed project - it hopes to build the White River Hub in partnership with Houston's Enterprise Product Partners - will be a step toward helping address the continuing shortage of pipeline capacity.

"This hub will help facilitate natural gas flow out of the area to markets in the eastern and western United States," said Brent Kitchen, director of marketing for Questar Pipeline Co., which will oversee construction.

It won't come anywhere near solving the problem, though. "We're still going to have a natural gas bubble in the Rockies that is going to persist," the U.'s Isaacson said. "Additional pipeline capacity eventually will get built, but it will be a while before they catch up with increasing production."

That doesn't mean Utahns won't be impacted when natural gas, bound for states in the East, starts flowing through the White River Hub.

When the capacity of the Kern River Pipeline that runs from Wyoming, through Utah and Nevada into California was expanded by nearly 1 billion cubic feet per day in 2003, the price of natural gas in the Rockies rose as the supply bubble in the region diminished.

The price increased from an average of \$3.04 per thousand cubic feet, or 63 percent of the national price, in the 12 months before the expansion went on line, to \$4.73 per thousand cubic feet, or 89 percent of the national price, in the following 12 months.

With the typical Utah household using approximately 80,000 cubic feet of natural gas annually, the increased transportation capacity on the Kern River Pipeline contributed to residential bills in the state rising about \$6 per month in the year after it opened.

On the flip side, increasing production in Utah and the rising price of the fuel means more money flowing into state treasuries, which could help ease the tax burden on residents.

The proposed hub that Questar wants to build near Meeker, Colo., in the Piceance Basin will be able to help push along 2.5 billion cubic feet of natural gas per day, or about 1.5 billion cubic feet per day more than the Kern River Pipeline expansion offered.

The hub will make it easier for suppliers to move their gas from Utah's Uinta Basin and Colorado's Piceance Basin onto connecting long-haul pipelines to the north that are being expanded so they can move additional fuel product out of the region, said Bill Ordemann, chief operating officer for Enterprise Product Partners.

Enterprise has a natural gas processing plant under construction in the Meeker area that, once completed by the end of this month, will be able to remove the impurities from 1.7 billion cubic feet of natural gas per day. It also has a "gathering line" in the Piceance Basin that can collect 1.6 billion cubic feet per day of natural gas from nearby wells.

"Along with our processing services, our customers want better market access" for their natural gas, Ordemann said. "And with this hub we'll be in a position to provide them with enhanced transportation capacity on interstate pipelines."

Under the terms of its partnership with Enterprise, Questar Pipeline will construct and operate the 7-mile-long pipeline connection that will make up the White River Hub. Enterprise has committed to taking up to 1.5 billion cubic feet per day of that capacity. Questar has committed to 500 million cubic feet per day. The remaining 500 million cubic feet will be offered to outside companies.

The proposed hub is expected to be constructed next summer and in service during fall 2008.

Isaacson suggests that with the hub going online, the increasing natural gas production in Utah and the other Rocky Mountain states will help offset any price increases for consumers because there will still be ample supplies of natural gas. "There is a lot of drilling and exploration going on right now, and we're going to see production in the region continue to increase."

Construction of the White River Hub is a sign of the growing importance the Rocky Mountain states are playing as a natural gas supplier. In the coming decades the Rockies are expected to overtake the Gulf of Mexico as the nation's primary source of natural gas.

Gary Long of the Energy Information Administration at the U.S. Department of Energy said last year the Rocky Mountain States of Utah, Colorado, New Mexico, Arizona and Montana produced 27 percent of the nation's natural gas, up from 22 percent five years ago.

"Over the past five years, we've been seeing production from the Gulf of Mexico declining," Long said, noting that aging natural gas fields mean dwindling reserves.

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